

IMPACT OF THE FEDERAL GOVERNMENT ON MARYLAND'S ECONOMY



DEPARTMENT OF LEGISLATIVE SERVICES 2010

Impact of the Federal Government on Maryland's Economy

**Department of Legislative Services
Office of Policy Analysis
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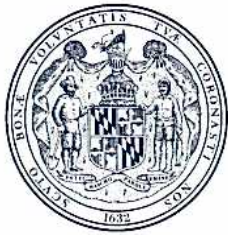
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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF POLICY ANALYSIS
MARYLAND GENERAL ASSEMBLY

Karl S. Aro
Executive Director

Warren G. Deschenaux
Director

January 15, 2010

The Honorable Thomas V. Mike Miller, Jr., President of the Senate
The Honorable Michael E. Busch, Speaker of the House of Delegates
Members, Maryland General Assembly

Ladies and Gentlemen:

Given Maryland's proximity to Washington, DC and the many federal institutions within Maryland, the federal government contributes substantially to the State's economy. The Taxes and Fiscal Planning Workgroup within the Office of Policy Analysis (OPA) prepared this report in an effort to identify and quantify the numerous ways that the federal government impacts the State's economy. Specifically, the report provides an overview of federal expenditures, employment, and wages in the State, as well as federal procurement contracts and other direct payments made in the State.

We trust this report will prove useful to the General Assembly in evaluating the impact of the federal government on Maryland's economy. Considering the changes in magnitude and scope of federal spending that often occur, particularly with funding provided to the State through the American Recovery and Reinvestment Act, OPA will periodically update this report to evaluate and measure those changes.

If you would like additional information regarding this report, please contact Robert Rehrmann or Ryan Bishop of OPA at (410) 946-5510.

Sincerely,

A handwritten signature in blue ink, appearing to read "W. Deschenaux", written over a horizontal line.

Warren G. Deschenaux
Director

WGD/JRB/eck

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Impact of the Federal Government on Maryland's Economy

Executive Summary

Given its proximity to Washington, DC and the many federal institutions within Maryland, the federal government contributes substantially to the State's economy. In federal fiscal year (FFY) 2007, the federal government expended \$70.6 billion in Maryland, or \$12,569 as measured on a per capita basis. This amount was about 50% greater than the national per capital average of \$8,339, ranking Maryland third highest overall after Virginia and Alaska. The substantial influence of the federal government on the State is the focus of this analysis – changes in federal government expenditures will likely have a disproportionate influence on the State's economy and can cause changes in the economy that are unexpected given prevailing economic conditions.

The level of federal expenditures within the State is generally a function of several factors, including demographics, the structure of the economy and economic well-being, and the prevalence of federal facilities. The economic profile of the State is well-suited to provide multiple services and goods to the federal government. Indeed, segments of Maryland's economy have evolved to provide these goods and services to the federal government. In addition to whether the State's businesses produce the goods or services that the federal government demands, the relative presence of businesses that qualify for federal subsidies, notably for agriculture, will also influence the level of federal expenditures. Lastly, the high concentration of military installations and civilian agencies within the State generate significant amounts of jobs, retirement and disability payments, and procurement contracts.

The U.S. Census Bureau's Consolidated Federal Funds Report divides federal expenditures into five categories – retirement and disability payments, other direct payments, grants, procurement contracts, and salaries and wages. In FFY 2007, procurement contracts were the largest expenditure in Maryland (30% of the total), followed by retirement and disability payments (23%), other direct payments (17%), salary and wages (16%), and grants (13%). Procurement contracts and salaries and wages are the main contributors to the high level of federal expenditures within the State.

After adjusting for inflation, federal government expenditures have been flat since FFY 2004. This is in contrast to the large increase (8.1% annually) between FFY 2002-2004, fueled mainly by a surge in government contracting in homeland security following 9/11 as well as Iraq and Afghanistan war expenditures. Within the last 10 federal fiscal years, total federal expenditures in Maryland increased by 3.3% annually. Over this time period in real terms, contracts increased at the highest annual rate (5.4%), followed by other direct payments (3.5%), grants (3.3%), retirement and disability payments (2.4%), and salaries and wages (1.3%). Although each category of federal expenditures has considerable influence on the State, the

relative static nature of several categories implies that these variables are likely to have a muted impact on changes in the State's economy, at least in the short term, and have a limited probability in any given year to produce shocks (positive or negative) to the economy. For example, both retirement and disability payments and grants during this time exhibited one-fifth as much volatility as the change in total federal expenditures in the State. Although the expansion of new federal facilities and changes related to the Base Realignment and Closure (BRAC) process have substantial impacts on local communities and pose significant infrastructure planning challenges, total salaries and wages over the long term are relatively static, exhibiting only one-third of the total volatility in federal expenditures in the State. This suggests that, over the long term, the influence of salaries and wages is relatively constant. In contrast, other direct payments, which in absolute terms were slightly larger than salaries and wages in FFY 2007, were a little more than one-third more volatile than the total change in expenditures within the last 10 years. Major components of other direct payments include Medicare, employer-paid health and life insurance premiums, as well as income security programs such as the supplemental nutrition assistance program, the earned income credit, and unemployment insurance compensation. Other direct payments have an important influence on the State's economy by acting as automatic stabilizers – temporarily boosting demand for goods and services during an economic downturn, thereby mitigating the severity of the downturn.

Procurement contracts are both the largest category of federal expenditures in the State and the most volatile. The \$21 billion in federal contracts disbursed in the State during FFY 2007 generally reflects the State's higher-skilled and higher-paying industries. Many of these contractors are large defense contractors such as Northrop Grumman, Raytheon, General Dynamics, BAE Systems, Textron, ARINC, and Thales. Typical military production in FFY 2007 includes Northrop Grumman's extensive communications equipment and radar systems, various missile defenses and systems engineering, and Textron's contracts to produce the RQ-7 Shadow unmanned aerial vehicles that feature prominently in the Iraq and Afghanistan conflicts and are produced at its subsidiary's 621,000 square-foot facility located in Hunt Valley.

Although military contracting comprises about one-half of all contracts, the State's contract portfolio is more diversified when compared to other states. Nationally, military contracts comprise about two-thirds of all federal procurement contracts. After defense and homeland security contracts, the Department of Health and Human Services (\$3.57 billion), NASA (\$1.51 billion), the Department of Commerce (\$848.4 million), the Department of the Treasury (\$867.5 million), and the General Services Administration (\$867.5 million) were the largest contractors in the State during FFY 2007.

Two of the State's largest contractors are reflective of the mix of defense and non defense activities prevalent in the State. Lockheed Martin's overall operations are dominated by traditional weapons programs and systems. In recent years, however, the company's federal contracts attributable to Maryland are composed mainly of non-defense contracts. Although the company continues to secure large defense contracts for projects such as the AEGIS ballistic missile defense system, its non-defense contracts are wide ranging and include providing pre-and in-flight services to civilian aircraft, significant Information Technology (IT)-related projects for the Department of Health and Human Services, census-related contracts, and a contract with the

FBI for the next generation ID project. Another example is Science Applications International Corporation (SAIC) – in FFY 2007 one-third of its Maryland contracts were for defense and homeland security, while the remaining contracts were from non-defense agencies, notably for operations at the National Cancer Institute in Frederick, Maryland. Telecommunications and IT services comprise another large group and include Computer Services Corporation, IBM, Westat, Inc., (survey design and implementation), Motorola, and Hewlett-Packard. The State's numerous medical facilities secure a significant number of federal medical research contracts (including for the military) and is led by Johns Hopkins University. Lastly, National Aeronautics and Space Administration (NASA) is a significant source of aerospace-related contracts, including for Johns Hopkins, contracts for the Space Telescope Institute in Baltimore, and several defense/aerospace companies such as Honeywell.

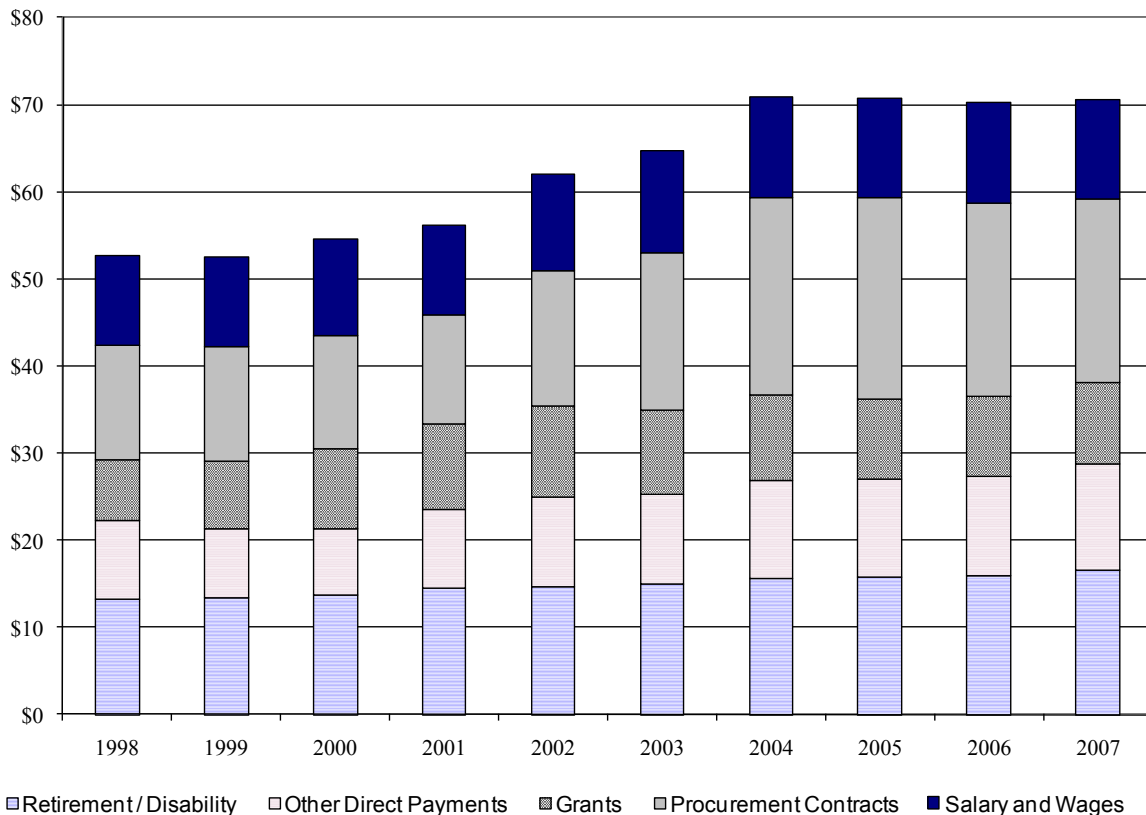
Although the large contractors described above comprise a large portion of the federal contracts disbursed in Maryland – the top 10 contractors received 40% of all federal contracts in the State in FFY 2007 – the impact of federal contracting is not limited to these large contractors. A total of 80,987 federal contracts were awarded to 13,277 contractors in the State during FFY 2007. The median value of a contract during this time was \$26,100 and 90% of all contracts were under \$420,000.

The economic recession will increase federal expenditures in Maryland in the next several years through two channels. First, other direct payments that act as automatic stabilizers will increase as poverty and unemployment rates go up. Second, federal expenditures will increase as funds related to the cornerstone of the federal government's fiscal policy response to the recession, the American Recovery and Reinvestment Act, are disbursed. A little over \$60 million in economic recovery contracts have been awarded in Maryland to date. The contracts awarded to date illustrate the variety in the potential impact to the State's economy, and range from likely direct (medical research at Johns Hopkins and \$40 million disbursed by the National Oceanic and Atmospheric Administration to IBM) to unclear (National Institute of Health (NIH) renovation contracts have, to date, been awarded to firms based in Virginia and Kentucky). Although the federal government has awarded a modest amount of these federal contracts in the State, particularly compared with the amount transferred to the State's budget, these contracts will buttress the State's economy in the next several years and accelerate the economic recovery.

Overview of Federal Expenditures in Maryland

Federal government expenditures and obligations to Maryland totaled \$70.6 billion in FFY 2007, an inflation-adjusted increase of \$346.0 million, or 0.5%, over FFY 2006. This increase follows minimal gains in FFY 2005 and 2006 – federal expenditures have essentially been flat over the last four fiscal years. This is in contrast to the three previous fiscal years (FFY 2002-2004). Federal expenditures increased by a total of \$14.7 billion from fiscal 2001 to 2004, an average annual increase of 8.1%. **Exhibit 1** lists the amount of federal expenditures in Maryland in the last 10 federal fiscal years by type of expenditure. All of the figures in this analysis are adjusted for inflation and expressed in constant FFY 2007 dollars except in the employment section, where calendar 2007 data is used.

Exhibit 1
Federal Expenditures in Maryland
Federal Fiscal 1998-2007
(\$ in Billions)



Source: Department of Legislative Services; 1998-2007 Consolidated Federal Funds Reports, U.S. Census Bureau

Despite the lack of increased expenditures in recent years, federal expenditures in Maryland continue to be disproportionately large compared to the rest of the nation. **Exhibit 2** lists the amount of federal expenditures in Maryland in FFY 2007, the percent each type of expenditure represents in Maryland, and the national, per-capita expenditures, and the per-capita rank for Maryland for each expenditure. Relative to population, a significant portion of total federal contracts and wages are expended in Maryland, 4.8 and 4.5%, respectively.

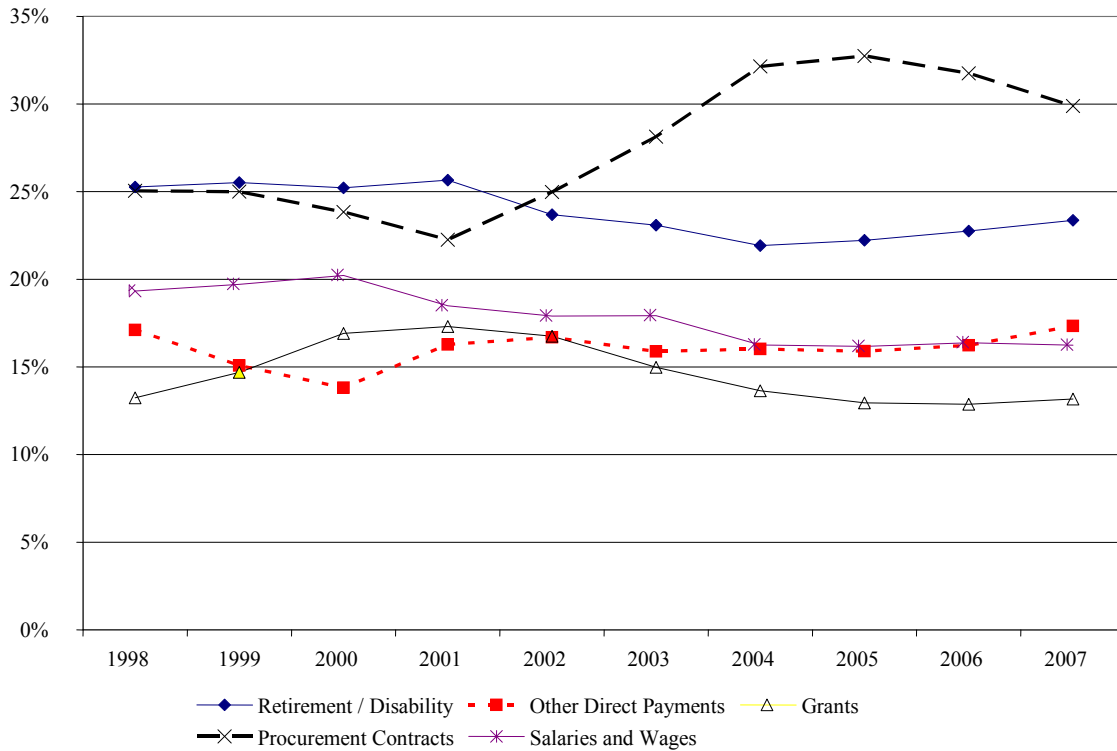
Exhibit 2
Major Federal Direct Expenditures
United States and Maryland
Federal Fiscal 2007

<u>Type of Direct Expenditure</u>	<u>Total Amount</u>	<u>Percent Total</u>		<u>Per Capita</u>		<u>Rank</u>
	<u>(\$ in Billions)</u>	<u>MD</u>	<u>US</u>	<u>MD</u>	<u>US</u>	<u>MD</u>
Retirement and Disability	\$16.5	23.4%	30.0%	\$2,937	\$2,571	13
Other Direct Payments	12.2	17.3%	22.9%	2,179	1,926	11
Grants	9.3	13.2%	19.4%	1,656	1,624	20
Procurement Contracts	21.1	29.9%	17.2%	3,756	1,393	2
Salaries and Wages	11.4	16.2%	9.9%	2,041	825	4
Total	\$70.5			\$12,569	\$8,339	3

Source: 2007 Consolidated Federal Funds Reports, U.S. Census Bureau

Virginia had the highest overall per-capita federal expenditures and also ranked highest for contracts and third highest in wages. Of Maryland’s other nearby states, Pennsylvania is ranked fourteenth overall, West Virginia fifteenth, New Jersey thirty seventh, and Delaware forty first. Total expenditures increased in Maryland in the last 10 federal fiscal years by 3.3% annually. Procurement increased by a greater amount, 5.4%, while total salaries and wages (1.3%) and disability payments (2.4%) increased at slower rates. Although salaries and wages and disability payments increased at a slower rate, each experienced less volatility than contracts. Compared to the total change in expenditures in each year, disability payments were one-tenth less volatile, grants one-fifth less, and salaries one-third less. Conversely, other direct payments are almost 20.0% more volatile, and contracts were over two-and-a-half times more volatile. **Exhibit 3** illustrates the contribution of each expenditure type in Maryland and how this has changed over time.

Exhibit 3
Contribution of Each Federal Expenditure
Federal Fiscal 1998-2007



Source: 1998-2007 Consolidated Federal Funds Reports, U.S. Census Bureau

Federal Employment in Maryland

With its proximity to the nation's capital, the federal government has long been an important part of Maryland's economy and job base. The federal government's impact on Maryland's labor market is both direct, through employment, and indirect, through spending on procurement, contracts, and grants. This report focuses on direct federal employment in the State.

The federal government produces several different series that measure state employment by industry. This report uses the employment series from the Bureau of Economic Analysis (BEA) in the U.S. Department of Commerce. Like other industry level series, BEA data is a count of jobs by place of work and includes both full-time and part-time positions. As a result, these are federal jobs located in Maryland that may be held by either residents or non-residents. Obviously, there are also many Maryland residents who work for the federal government in Virginia and the District of Columbia. These jobs are included in the count for those jurisdictions and not in the Maryland count. Similarly, non-residents who work in Maryland are counted in Maryland's job total. BEA also provides data on jobs for the self-employed, but this report uses wage and salary employment data that excludes self-employment. The main drawback with this series is that it is available only annually and thus the latest data are for calendar 2007. However, it is the most comprehensive collection of employment data available, as it includes both civilian and military federal employment.

In 2007, there were a total of 203,100 federal jobs in Maryland according to BEA data. Of those jobs, 46,500 were military (including National Guard and Reserves) and 156,600 were civilian. Maryland had a total of almost 2.8 million jobs across all industries – federal jobs were approximately 7.4% of that total, and federal civilian jobs were 5.7% of the total.

Given Maryland's proximity to Washington, DC, it is not surprising that federal employment is a more significant share of the State's job base than for the nation as a whole, as indicated in **Exhibit 4**. In 2007, federal jobs were just 3.3% of total U.S. employment with civilian jobs being only 1.9% of the total. In Virginia, total federal employment is 8.3% of the total job base. Federal civilian jobs account for 4.3% of Virginia's total employment. The District of Columbia, not surprisingly, has the greatest reliance on the federal government with more than a quarter of employment accounted for by federal civilian jobs.

Exhibit 4
2007 Federal Employment as a Percentage of Total Employment
Top Five Jurisdictions

<u>Civilian</u>		<u>Military</u>	
District of Columbia	25.5%	Hawaii	7.7%
Maryland	5.7%	Alaska	7.6%
Alaska	4.8%	Virginia	4.0%
Hawaii	4.5%	North Dakota	3.0%
Virginia	4.3%	North Carolina	2.9%
		Maryland	1.7%
U.S.	1.9%	U.S.	1.4%

Note: Military employment includes Reserve and National Guard units that meet regularly for training.

Source: Bureau of Economic Analysis, U.S. Department of Commerce

Although federal employment is an important part of the Maryland economy, it is not the largest industry in the State. In 2007, the largest industry by employment was health and social assistance, which accounted for almost 11.5% of all payroll jobs followed closely by retail trade at 11.3%, as reflected in **Exhibit 5**. Total federal employment, civilian and military, was the fifth largest industry in 2007, while federal civilian employment by itself ranks seventh.

Exhibit 5
Top Industries in Maryland
Ranked by Number of Jobs in 2007

	<u>Employment</u>	<u>Percent of Total</u>
Health Care and Social Assistance	316,100	11.5%
Retail Trade	310,700	11.3%
Local Government	239,800	8.7%
Professional and Technical Services	231,300	8.4%
Federal Government (Civilian and Military)	203,100	7.4%
Construction	194,300	7.1%
Food Services and Drinking Places	176,500	6.4%

Source: Bureau of Economic Analysis, U.S. Department of Commerce

The federal government does, however, dominate the State's largest employers as federal agencies, military installations, and defense contractors comprise 10 of the State's largest 25 employers, as shown in **Exhibit 6**.

Exhibit 6
Major Federal and Contractor Employers in Maryland
Federal Fiscal 2008

<u>Rank</u>	<u>Employer</u>	<u>Jobs</u>
2	Fort George G. Meade	30,225
4	National Institutes of Health	18,627
8	Andrews Air Force Base	15,000
12	Aberdeen Proving Ground	12,500
13	U.S. Social Security Administration	11,959
14	Northrop Grumman	11,000
15	Patuxent River Naval Air Station	10,500
16	Lockheed Martin	9,777
17	U.S. Food and Drug Administration	8,439
25	Internal Revenue Service	6,441
Total		134,468

Source: Department of Business and Economic Development

Wage and Salary Disbursements

In addition to reporting the number of jobs, BEA also reports the wage and salary income associated with those jobs. Because federal jobs tend to be higher paying on average, the federal government accounts for a larger share of total wage and salary income than it does of employment. So whereas the federal government (civilian and military) accounted for 7.4% of Maryland jobs in 2007, it accounted for 11.3% of wage and salary income in the State. This compares with 4.2% nationally. Federal civilian employment alone accounts for 9.6% of Maryland wage and salary income. The federal government is the fifth largest industry in the State by employment but the second largest by income, as seen in **Exhibit 7**.

Exhibit 7 Top Industries in Maryland Ranked by (Wage and Salary) Income in 2007

	Wage and Salary Income (\$ in Billions)	Percent of Total
Professional and Technical Services	\$17.6	13.3%
Federal Government (Civilian and Military)	15.0	11.3%
Health Care and Social Assistance	13.6	10.3%
Local Government	11.2	8.4%
Construction	9.8	7.4%
Finance and Insurance	8.7	6.5%
Retail Trade	8.5	6.4%

Source: Bureau of Economic Analysis, U.S. Department of Commerce

Changes in Federal Employment

Direct federal employment has been a declining share of total jobs in Maryland over the past 30 years. In 1980, total federal employment (civilian and military) was 11.5% of all jobs, making it the third largest industry in the State at that time. By 2007, the federal share of total jobs had fallen to 7.4%. Nationwide, federal employment has declined from 5.6% of all jobs in 1980 to 3.3% in 2007, as reflected in **Exhibit 8**.

Exhibit 8
Federal Employment
(Civilian and Military)
Federal Fiscal 1980-2007

	<u>Maryland</u>	<u>Percent of Total</u>	<u>U.S.</u>	<u>Percent of Total</u>
1980	213,000	11.5%	5,495,000	5.6%
1990	226,000	9.6%	5,951,000	5.1%
2000	206,000	7.9%	4,967,000	3.6%
2007	203,000	7.4%	4,823,000	3.3%

Source: Bureau of Economic Analysis, U.S. Department of Commerce

The federal government's declining share of total employment is a function both of fewer federal jobs and strong growth in other sectors. Some of the decline in direct federal employment reflects policy decisions to privatize and outsource work. Thus, some of the decline in direct federal jobs has been offset by increasing private sector employment.

The declining federal employment has been driven largely by a drop on the military side, especially since 1990. In the aftermath of the Cold War, the military was significantly downsized. According to BEA data, the military declined from 2.7 million active and reserve personnel in 1990 to 2.0 million in 2007, a drop of almost 25%. Maryland experienced a similar decline, going from 62,000 military personnel stationed in the State to 46,500 by 2007 (**Exhibit 9**).

Exhibit 9
Change in Federal Employment
Federal Fiscal 1980-2007
(# in Thousands)

	Maryland		United States	
	<u>Military</u>	<u>Civilian</u>	<u>Military</u>	<u>Civilian</u>
1980	57	156	2,501	2,994
1990	62	163	2,718	3,233
2000	50	156	2,075	2,892
2007	46	157	2,041	2,782
1990	10.2%	4.8%	8.7%	8.0%
2000	-20.0%	-4.6%	-23.7%	-10.5%
2007	-6.9%	0.5%	-1.6%	-3.8%
1980-2007	-17.9%	0.5%	-18.4%	-7.1%

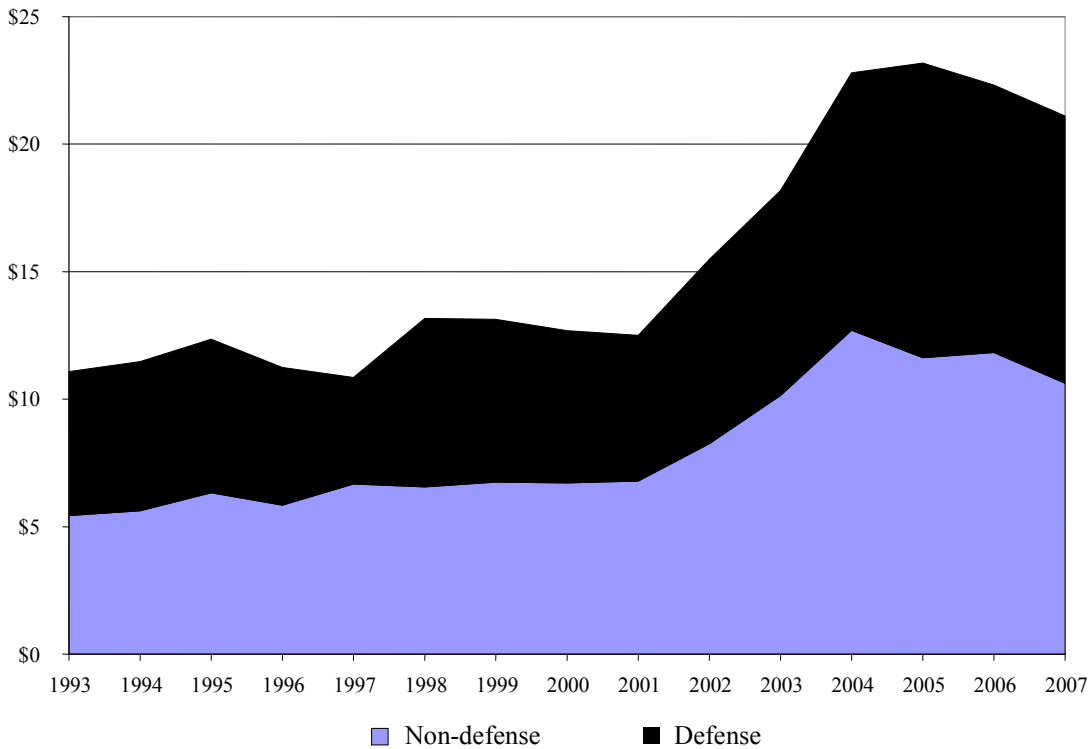
Source: Bureau of Economic Analysis, U.S. Department of Commerce

There has been a much smaller decline in federal civilian employment, and in the case of Maryland, little change since 1980. Nationally, federal civilian employment fell 7.1% between 1980 and 2007 with the biggest drop occurring during the 1990s. In Maryland, the number of federal civilian jobs also fell in the 1990s but, by 2007, had returned to the level of 1980. This was due in part to a jump in employment in 2002 and 2003 in the aftermath of the 2001 terrorist attacks. Since 2003, federal civilian employment in Maryland has fallen by about 2.0% (around 3,100 jobs).

Procurement Contracts

Robust growth in procurement contracts contributed to the growth in federal expenditures in Maryland between FFY 2001 and 2005. However, procurement obligations in Maryland declined in FFY 2006 (by about \$863 million or 3.7%) and continued to drop in FFY 2007 (by about \$1.2 billion or 5.4%). These decreases are in contrast to the three previous years as procurement increased on average by about \$3.4 billion each year or roughly 20.0% annually, as illustrated in **Exhibit 10**.

Exhibit 10
Maryland Federal Procurement Contracts
Federal Fiscal 1993-2007
(\$ in Billions)



Source: Department of Legislative Services; 1993-2007 Consolidated Federal Funds Reports, U.S. Census Bureau

The rapid increase in contracts from FFY 2001 to 2005 reflected large increases in homeland security following 9/11 as well as for Iraq and Afghanistan war expenses. Although defense and homeland security expenses accounted for about two-thirds of the increase, non-defense contracts increased in multiple non-defense agencies and were substantial in several of those agencies. **Exhibit 11** lists the federal agencies with the largest numerical increase in contracting from FFY 2001 to 2005 and the change in contracting in these agencies from FFY 2005 to 2007.

Exhibit 11
Changes in Federal Procurement by Agency
Federal Fiscal 2001-2007
(\$ in Billions)

<u>Agency</u>	2001-2005		2005-2007	
	<u>Change</u>	<u>% Change</u>	<u>Change</u>	<u>% Change</u>
Dept. of Defense	\$7,342.7	127%	(\$2,288.6)	-17.4%
HHS	1,563.2	73%	(134.3)	-3.6%
NASA	591.6	49%	(301.5)	-16.7%
Treasury	584.1	308%	94.0	12.1%
Homeland Security	482.8	400%	(105.3)	-17.5%
Commerce	347.4	117%	204.0	31.7%
Interior	175.7	120%	(92.9)	-28.9%
HUD	126.1	209%	(52.7)	-28.3%
Education	105.9	39%	(64.9)	-17.2%
Energy	97.8	57%	76.5	28.3%
All Others	239.0	11.1%	115.6	4.8%
Total	\$11,656.3	93%	(\$2,550.3)	-10.5%

HHS: Health and Human Services

HUD: Housing and Urban Development

NASA: National Aeronautics and Space Administration

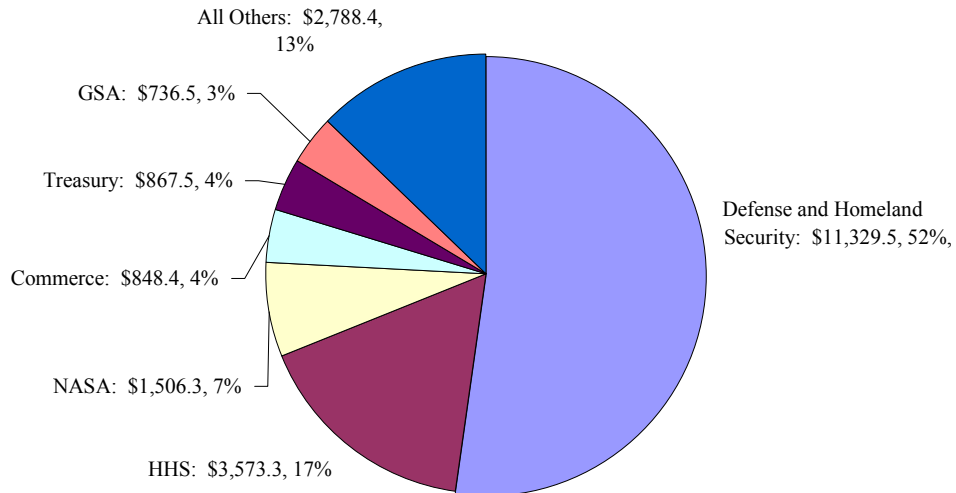
Source: Department of Legislative Services; 2001-2007 Consolidated Federal Funds Reports, U.S. Census Bureau

Several agencies awarded fewer contracts in the first period including the State Department (-\$66.6 million), the Social Security Administration (-\$21.3 million), and the Small Business Administration (-\$1.2 million). Agencies that increased contracting in Maryland counter to the recent overall drop include the Department of Commerce (increase of \$204.0 million, likely related to the 2010 Census), Department of Treasury (\$94.0 million), Department of Energy (\$76.0 million), State Department (\$48.0 million), and Department of Agriculture (\$45.0 million).

Federal procurement contracts in Maryland totaled \$21.1 billion in FFY 2007 of which a little more than \$11.0 billion was defense and homeland security. Although defense and homeland security contracts are large relative to the State's size, defense and homeland security contracts comprise 52% of all contracts in Maryland compared with 68% nationally. Proximity to major agencies such as the Department of Commerce, Government Services Administration, Health and Human Services (HHS), and National Aeronautics and Space Administration (NASA) helps Maryland capture a large portion of non-defense contracts. HHS and NASA contracts compose about 3% each of all contracts nationally, far less than in Maryland. Maryland contractors were awarded about 11% of NASA contracts, 38% of Department of Commerce contracts, and about 25% of HHS contracts. **Exhibit 12** illustrates the amount of contracts in Maryland by agency in FFY 2007. Department of Treasury contracts include the Postal Service, which totaled about \$336.9 million in FFY 2007. The top five agency contracts in FFY 2007 were the Army (\$3.8 billion), the Navy (\$2.7 billion), the National Institutes of Health (\$2.0 billion), NASA (\$1.6 billion), and the Air Force (\$718.2 million).

A total of 80,987 contracts were awarded to Maryland companies during FFY 2007. It should be noted that data about contracts represent where the majority of the work in the contract will be completed. For larger contracts, it is not uncommon for the work also to be performed in other states or subcontracted out to other companies. In addition, a company performing a given service or product could be paid in multiple contracts during the year. Though large contracts comprise most of the dollars, most contracts in Maryland are relatively small. The median size of a contract in Maryland in FFY 2007 was \$26,096, and 90% of all contracts were under \$420,000. The minimum contract was for \$3,411, and the largest contract was for \$173.9 million. The largest contract is one of several contracts during the year that are part of a multi-billion commitment to SAIC for operations at the National Cancer Institute in Frederick. **Exhibit 13** lists the number of contracts in FFY 2007 in Maryland by the dollar value of the obligation during the year.

Exhibit 12
Federal Procurement Contracts in Maryland by Agency
Federal Fiscal 2007
(\$ in Millions)



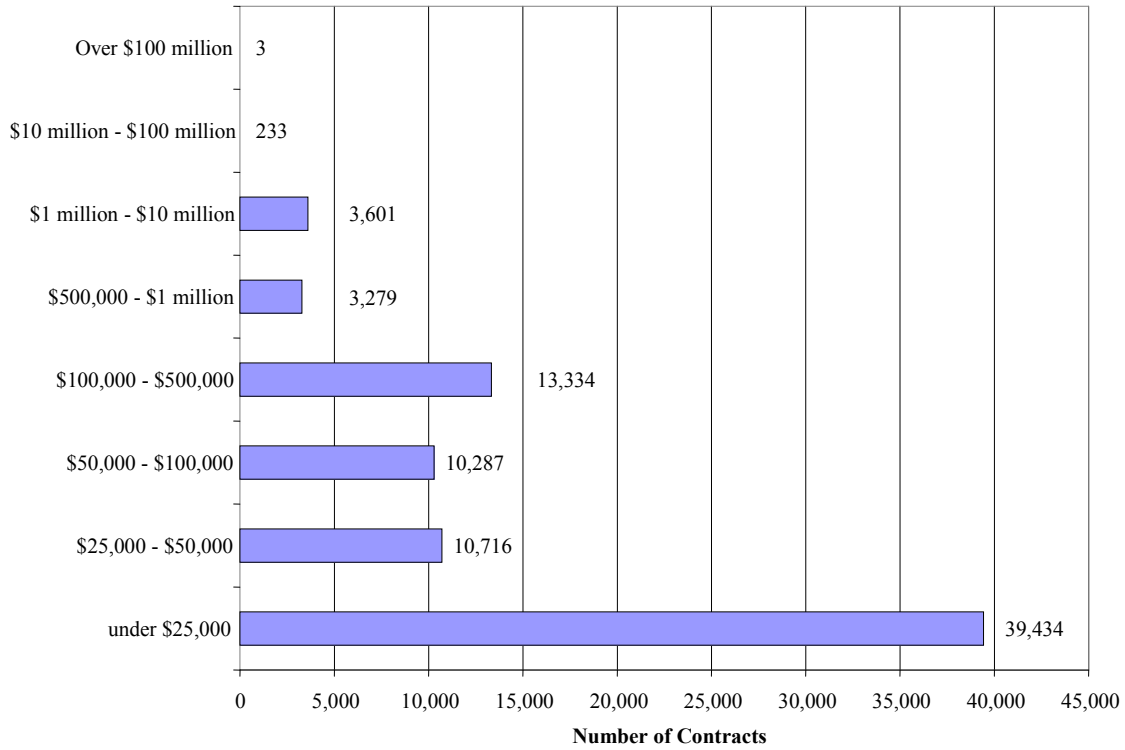
GSA: Government Services Administration

HHS: Health and Human Services

NASA: National Aeronautics and Space Administration

Source: Department of Legislative Services; usaspending.gov

Exhibit 13
Federal Contracts by Amount Obligated
Federal Fiscal 2007



Source: Department of Legislative Services; usaspending.gov

Exhibit 14 lists the top 10 federal contractors in Maryland during FFY 2007 and the total amount obligated to the company during the year.

Exhibit 14
Top 10 Maryland Federal Contractors
Federal Fiscal 2007
(\$ in Millions)

<u>Contractor Parent Name</u>	<u>Amount</u>
Lockheed Martin Corporation	\$1,045,056,327
SAIC, Inc.	676,777,229
Computer Sciences Corporation	645,954,193
Johns Hopkins University	620,264,669
Northrop Grumman Corporation	568,576,714
Textron Inc.	537,271,211
IBM	466,646,493
DRS Technologies, Inc.	433,335,902
ARINC Incorporated	425,518,851
Westat, Inc.	343,611,619

ARINC: Aeronautical Radio, Incorporated

IBM: International Business Machines

SAIC: Science Applications International Corporation

Source: Department of Legislative Services; usaspending.gov

The top five services performed by the 13,277 contractors in Maryland were telecommunication services (\$1.6 billion), engineering and technical skills (\$1.2 billion), other professional services (\$1.0 billion), systems engineering (\$918.5 million), and program management/support services (\$632.0 million). The **Appendix 1** list the top 20 Maryland contractors (by amount of contracts awarded) in the last five fiscal years, information on the major types of work and projects performed by the contractor, and estimates on total employment in the State. Due to data limitations, job estimates for several companies are based on the best available data and should not be treated as precise point estimates. In some instances, the parent company listed in Appendix 1 will be different than the actual company that performs the work. For instance, Textron's subsidiary AAI Corporation located in Hunt Valley produces the Shadow unmanned aircraft system that generates many of the contracts. The top 20 contractors were awarded about 40% of all contracts awarded in Maryland during the last five years. Many of these firms are also some of the largest contractors nationally including

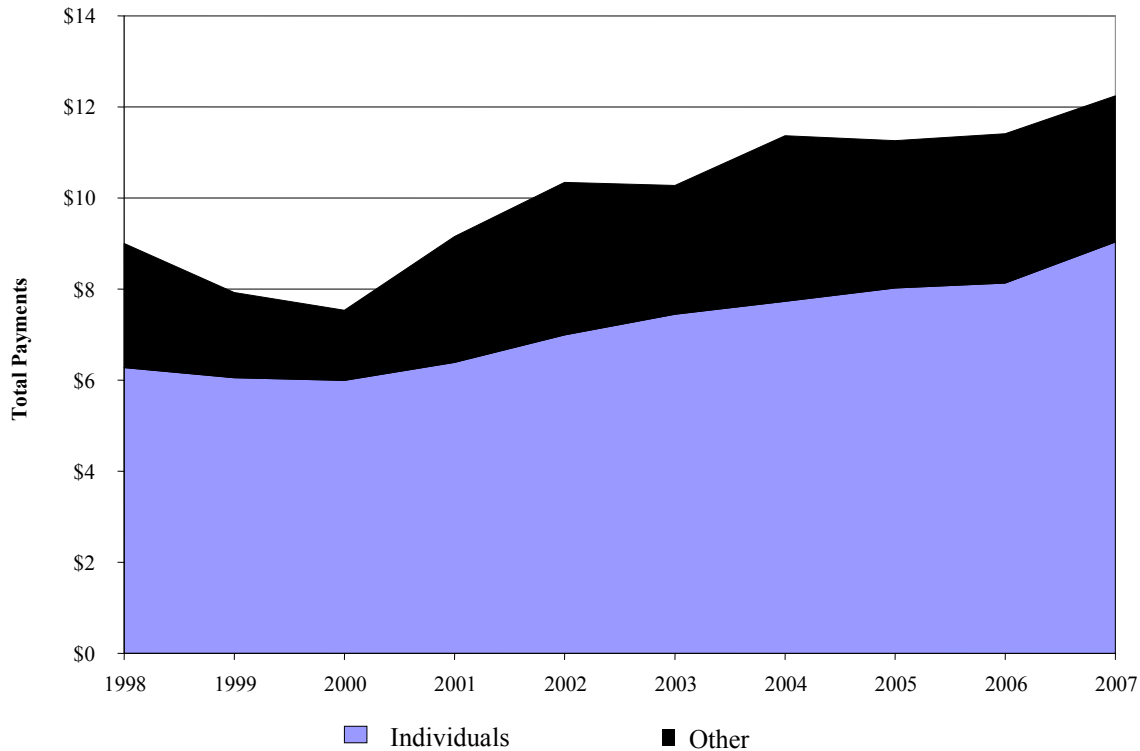
Lockheed Martin, Northrop Grumman, Raytheon, General Dynamics, and SAIC. Boeing is the only top-five contractor that does not have a significant presence in Maryland.

Other Direct Payments

Programs classified as other direct payments include two categories: (1) direct payments for individuals, other than for retirement and disability and (2) direct payments for other than individuals. Payments to individuals contain significantly more expenditures and comprised a little less than three-quarters of all payments in FFY 2007. In addition, financial assistance can be provided for a specified use (only) or with unrestricted use. Financial assistance from the federal government is provided directly to individuals, private firms, and other private institutions to encourage or subsidize a particular activity by conditioning the receipt of the assistance on a particular performance by the recipient. This does not include solicited contracts for the procurement of goods and services for the federal government. Financial assistance from the federal government is also provided directly to beneficiaries who satisfy federal eligibility requirements with few or no restrictions being imposed on the recipient as to how the money is spent. This includes payments under low-income assistance programs and Medicare.

Exhibit 15 illustrates the change in other direct payments by type within the last 10 federal fiscal years.

Exhibit 15
Other Direct Payments to Individuals and Others
Federal Fiscal 1998-2007
(\$ in Billions)



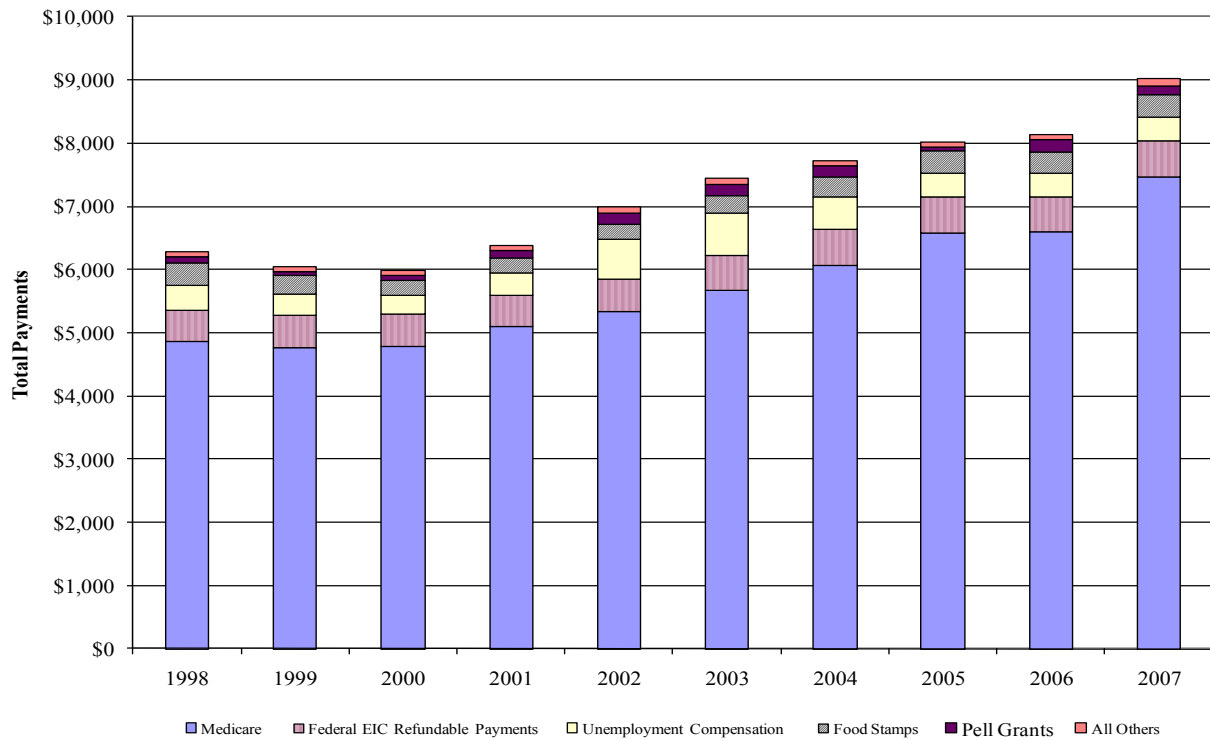
Source: Department of Legislative Services; 1998-2007 Consolidated Federal Funds Reports, U.S. Census Bureau

Other Direct Payments for Individuals

Other direct payments for individuals totaled a little more than \$9 billion in FFY 2007. These payments are dominated by Medicare payments including hospital insurance, supplementary medical insurance, and prescription drug coverage – drug coverage increased Medicare's other direct payment expenses in Maryland by a little over \$1 billion in FFY 2007. Other direct Medicare payments increased by a little over one-half in the last 10 years, about 5.0% annually, and totaled 83.0% of all other direct payments to individuals in FFY 2007. Refund payments to individuals under the federal earned income credit (EIC) are the next largest outlay and totaled \$565.1 million in FFY 2007. This amount includes only the amount that was refunded and not any amounts that reduced tax liabilities. Other payments include unemployment compensation (\$386.8 million), food stamps (\$357.2 million), Pell Grants (\$136.2 million), with all other programs totaling \$124.5 million. Pell Grants and EIC payments increased by 3.7% and 1.6% annually, respectively, while unemployment compensation and food

stamps, though cyclical, were roughly level over the last 10 years. **Exhibit 16** illustrates other direct payments to individuals from FFY 1998 to 2007.

Exhibit 16
Other Direct Payments to Individuals
Federal Fiscal 1998-2007
(\$ in Millions)



Source: Department of Legislative Services; 1998-2007 Consolidated Federal Funds Reports, U.S. Census Bureau

Other Direct Payments – Other Than for Individuals

Direct payments other than for individuals totaled \$3.2 billion in FFY 2007. The employer’s share of insurance premium payments for federal employee life and health insurance comprised about 90% of all of these payments. Other payment types include:

- **Farm subsidies** (\$60.6 million): Subsidies to farmers include payment of crop insurance premiums, payment for specified conservation efforts, and price supports.

- **Housing** (\$201.8 million): Programs include payments for public housing and for eligible elderly individuals and financial assistance to tenants who provide Section 8 housing.
- **State Reimbursements** (\$24.2 million): Two programs coded as direct payments are paid to the State. The federal government permits Medicare payments to be made to states for amounts they have paid related to Part D drugs, to the extent that those costs are not otherwise recoverable from a Part D plan. In addition, the State is reimbursed for assistance provided to refugees and asylees for resettlement by funding cash assistance, medical assistance, and social services for the eligible population.

Retirement and Disability Payments

Retirement and disability payments to Marylanders totaled \$16.5 billion in FFY 2007, a little less than one-quarter of all federal expenditures. Social Security, federal retirement benefits, and benefits for veterans are the largest programs. As of December 2005, Social Security beneficiaries represented 13.8% of the total population and 86.8% of the State's population aged 65 or older. **Exhibit 17** lists the amount of payments for the major programs and an estimate of the number of recipients when available.

Exhibit 17
Retirement and Disability Payments
Federal Fiscal 2007
(\$ in Millions)

	<u>Total</u> <u>Payments</u>	<u>Recipients</u>
<u>Social Security and Railroad Workers</u>		
Retirement Insurance	\$6,203.0	508,540
Survivors Insurance	1,869.5	73,280
Disability Insurance	1,507.9	91,530
Supplemental Security Income	505.0	94,418
Social Insurance for Railroad Workers	162.2	9,500
<u>Federal Retirement and Disability</u>		
Civilian	\$4,250.1	
Military	1,046.0	49,878
<u>Veterans Benefits</u>		
Service-connected Disability	\$549.0	
Other Benefit Payments	134.3	
<u>Other Programs</u>		
Pension Plan Termination Insurance	\$156.9	
All Other	279.4	
Total	\$16,663.2	

Note: Estimates for recipients are the most recent available and may not be for federal fiscal year 2007.

Source: 2007 Consolidated Federal Fund Report, U.S. Census Bureau; U.S. Social Security Administration; Defense Manpower Data Center; U.S. Railroad Retirement Board

Appendix 1

Top 20 Contractors – Federal Fiscal 2004-2008

<u>Rank</u>	<u>Contractor Parent Company Name</u>	<u>Total Contracts (\$ in Millions)</u>	<u>Services and Awarding Agencies</u>	<u>Jobs</u>
1	Lockheed Martin	\$5,259.8	Defense Contractor	9,777
2	Northrop Grumman Corporation	3,746.2	Defense Contractor	11,000
3	SAIC, Inc.	3,420.0	Scientific, Engineering, and Technology R &D operations – NCI-Frederick, DoD, Other Agencies	4,597
4	Computer Services Corporation	3,387.5	Telecomm. Services – IRS, Fed Tech. Services, Other Agencies	1,200
5	Johns Hopkins University	3,180.5	R&D - Defense, NASA, NIH	
6	Textron, Inc.	2,481.8	Defense Contractor Drones, Aircraft Maintenance and Components	1,097
7	IBM	2,440.9	Accounting Services, ADP and Telecomm Services CMMS, IRS, Customs, NOAA, SSA, Defense, Other	
8	ARINC Inc.	1,968.6	Defense Contractor – Systems Engineering Most Contracts – Army	1,300
9	Westat, Inc.	1,764.6	Survey design and implementation NIH and other health agencies, Dept. Education	1,500
10	Drs. Technologies Inc.	1,540.8	Defense Contractor	

Top 20 Contractors – Federal Fiscal 2004-2008 (Continued)

<u>Rank</u>	<u>Contractor Parent Company Name</u>	<u>Contracts (\$ in Millions)</u>	<u>Services and Awarding Agencies</u>	<u>Jobs</u>
11	URS Corporation	1,530.5	Defense Contractor	
12	Honeywell International, Inc.	1,410.3	Aerospace, Defense Contractor	900
13	General Dynamics Corporation	1,405.8	Defense – Telecomm, Support, Engineering Services Navy, Army, other Military and Gov't Agencies	1,425
14	Motorola	1,372.7	Telecommunications Equipment and Services Defense, Customs and Immigration, Other Agencies	
15	BAE Systems	1,339.1	Defense Contractor	
16	Affiliated Computer Services Inc.	1,087.5	Quality Control Testing Computer Systems Dept. Education – Student Loan Program	
17	Thales	1,056.3	Defense – Communications Equipment Army, Navy, U.S. Special Operations Command	
18	Hewlett-Packard Company	971.1	ADP equipment, supplies, and Services Defense, Government Agencies	
19	Raytheon	923.8	Hardware and Software Systems; Defense Contractor NASA, NOAA & Other /Ballistic Missile Defense (SM-3)	
20	Association for Research in Astronomy	908.6	Space Telescope Science Institute – NASA	
	Total for Top 20 Contractors	\$41,196.4		

ADP: Automatic Data Processing
CMMS: Computerized Maintenance Management System
DoD: Department of Defense
IRS: Internal Revenue Service
NCI: National Cancer Institute
NIH: National Institute of Health
NOAA: National Oceanic and Atmospheric Administration
R&D: Research and Development
SAIC: Science Applications International Corporation
SSA: Social Security Administration